Weekly Fixed Income Note

Week ending: 10th June 2022

Key Highlights:

- T-bills remained undersubscribed, during the week, recording an overall subscription rate of **61.26%**, down from **86.29%** recorded in the previous week. The 91-day paper recorded the highest subscription rate at **81.13%** while the 182-day paper recorded the lowest rate at **40.00%.** Investor preference towards the 91-day paper could signal the higher risk adjusted returns given the upcoming general elections. The Central Bank accepted **95.40%** of the **KES 14.70Bn** worth of bids received. Current fiscal year borrowing is **3.47%** behind the prorated targe increasing pressure on the government's acceptance rates given this is the last month of the fiscal year. Yields on the 91-day, 182-day and 364-day papers edged up **5.50bps**, **6.30bps** and **1.70bps** respectively.

- In the primary market, the government issued **IFB1/2022/18** looking to raise **KES 75.00Bn** for the purposes of funding infrastructural developments in final month of the current fiscal year. The issue was oversubscribed with a subscription rate of **101.83%** raising **KES 73.77Bn** representing an acceptance rate of **96.60%**.

- In the secondary market, the value of bonds traded increased by **18.99%** to **KES 12.65Bn** from **KES 10.64Bn** recorded last week. The yield curve steepened marginally but skewed in the 8-year paper with the three-year papers gaining the most by **34.90bps**. The twenty-year paper lost the most by **3.05bps**. The FTSE Bond index closed the week at **95.78** taking the YTD loss to **0.29%.**

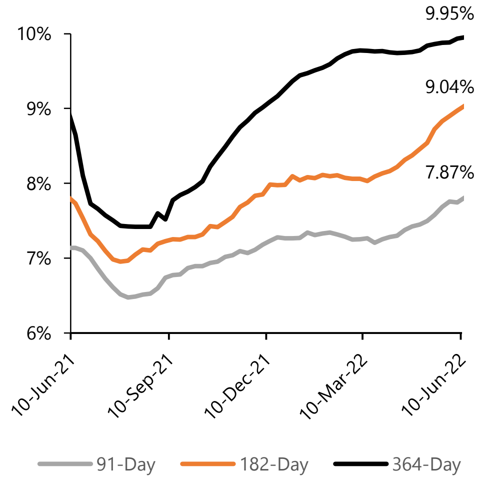
The June Infrastructure bond issue was oversubscribed but below our expectations despite an attractive interest rate and its tax-free nature. We expect the recently issued IFB to drive up activity in the secondary market, for the coming weeks, as investors who missed out look for attractive entry points. Higher yields signal increased risk in the global and local environment, with increased activity on the 91-day paper, partly attributable to investors' pricing in greater uncertainty from the upcoming General Elections.

Macroeconomic data	Current	Previous
GDP (2021 vs. 2020)	7.50%	(0.30%)
Inflation (May)	7.10%	6.47%
Private Sector Credit Growth (Apr)	11.50%	9.10%

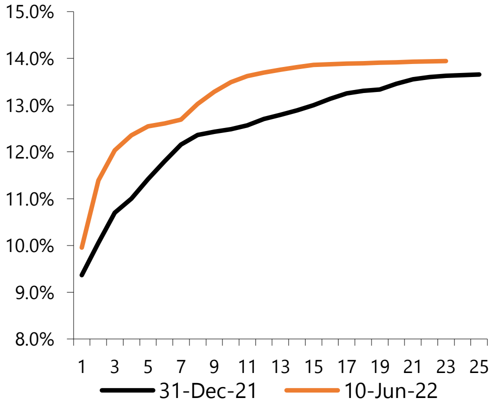
Key Indicators

	Current	Previous	bps
91- Day	7. 87%	7. 81%	5.50
182-Day	9.04%	8.97%	6.30
364-Day	9.95%	9.94%	1.70
Interbank Rate	4.83%	4.77%	6.00

T-Bill Rates



NSE Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling lost further ground against the USD, depreciating **0.83%** to trade at **KES 117.05** from **KES 116.83** at last week's close. On a YTD basis, the shilling has depreciated **3.45%** against the USD compared to **3.64%** in 2021. The CBK's usable forex reserves remained adequate at **USD 8,210Mn** (**4.88** months of import cover), a 0.11% week-on-week decrease from **USD 8,219Mn** (**4.89** months of import cover) recorded last week. The CBK maintains that the current reserves are adequate to cover dollar demand in the market despite reports of acute dollar shortage from importers. **However, we expect the local currency to continue to remain under pressure due to the increasing dollar shortage as global oil prices remain elevated on the back of higher import bill and reduced dollar inflows from key export earning sectors. The expected further rates hike across various developed market central banks increases the possibility of further dollar strengthening weighing down on any pull back from the local currency.**

Liquidity

Liquidity in the money market tightened as shown by the average interbank rate which increased to **4.83%** from **4.77%** recorded at the end of the previous week. The tightening in liquidity was supported by the increased tax remittances that more than offset the government payments. Open market operations remained active. **We foresee the interbank rate likely edging above the 5.00% level for the coming week, mainly driven by active open market operations, monthly banks CRR cycle and the possibility of IFB issue settlement sapping liquidity from the market. However, we anticipate that end-of-fiscal year government expenditure will continue to provide liquidity support.**

Kenya Economic Update

On June 7, 2022 The World Bank released an economic analysis report that stated that Kenya's real gross domestic product (GDP) is projected to grow by 5.50% in 2022 and 5.20% on average in 2023–24, after a remarkable recovery in 2021 from the effects of the pandemic. However, the estimate is lower than the 7.50% growth seen in 2021 mainly weighed down Strong recovery in 2022 will be weighed down by external factors including the Russia-Ukraine war despite both countries contributing 2.10% of total trades in the five years to 2020. The report also observed that recovery in revenue generation which has increased the tax to GDP (12.30%) and reduced the fiscal deficit to GDP (3.90%) has been weighed down by the fuel subsidy.
We expect economic rebound is still on point to reach the pre-pandemic levels given the increase in output levels despite the fears of an economic slowdown driven by the upcoming elections. However, existing global challenges affecting farm inputs will continue seeing divergent growths between agriculture and non-agriculture sectors. We anticipate further recoveries from key sectors such as education, tourism and health.

Weekly Fixed Income Calendar

This week, the Central Bank of Kenya, as the government's fiscal agent, will seek to raise **KES 24.00Bn** in Treasury Bills. EPRA will revise pump fuel prices for the month long period beginning **15th June 2022** which we expect will be reviewed upwards by around 3-5.00%. In the month of May global prices of crude oil remained elevated in addition to the fuel subsidy program that is currently under pressure.

US FED, Bank of England and Bank of Japan will be holding their MPC meetings during the week and we anticipate further rates hike. Market consensus has the FED expected to hike by 50-75 bps given the need to tame the current high inflation environment.

	Macro event	Date
1.	EPRA Monthly Fuel Review	14th June 2022
2.	Weekly T-Bill Auction	16th June 2022
3.	June Inflation Figures	30th June 2022

CONTACTS:

Research Desk

Solomon Kariuki
Research Analyst

Agnes Mbuvi

Email: research@aib-axysafrica.com

Equities Dealing

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Email: trading@aib-axysafrica.com